

TRIP REPORT
PRIVATE SECTOR DEVELOPMENT OF HOUSING
EASTERN EUROPE

Implementation of Technical Assistance Program
at
Bulgarian Post Bank
and
State Savings Bank

Prepared for

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Implementation of Technical Assistance Program at Bulgarian Post Bank and State Savings Bank

2 SITUATION

The primary purpose of the subject trip was to place mid-term advisors in the Bulgarian Post and State Savings Banks to work with the banks' senior staffs to develop internal construction lending procedures. This technical assistance was the result of interest expressed by the respective banks after attending the USAID-sponsored Construction Finance Workshop in May 1993.

The specific needs were assessed and presented in Trip Report, dated September 1993.

The second purpose of the trip was to conduct a needs assessment and prepare a scope of work for two banks that previously expressed interest in having technical assistance.

4 MISSION

During the period which is the subject of this report, meetings were held with the respective banks to formally implement the assistance program.

4.2 Bulgarian Post Bank

A meeting was held on Tuesday, November 2, 1993, at the Bank. In attendance were Vladimir Vladimerov, Chairman of the Board of Directors; Vanya Vasileva and Reni Petkova, Executive Directors; and Mrs. Radeva of the Real Estate Finance unit. I introduced Mr. Robert Spencer, the USAID technical advisor, and I reviewed with the attendees the scope of the work and the objectives of the assignment. It was agreed that based on the Bank's current needs, the order of priority of the scope of the work would be established by the Bank and the advisor.

Mr. Vladimerov provided a background summary of the bank and its operations and objectives. He stated that providing funding for home construction and mortgages to purchasers of homes is a key activity for the Bank's future.

The Bank has provided Mr. Spencer with adequate space to work and has indicated that it will provide administrative support as required.

4.4 State Savings Bank

A meeting was held on Wednesday, November 3, 1993, at the Bank with Mrs. Bistra Dimitrova, Director General and Manager of the Sofia area Real Estate Credit Branch. I introduced Mr. Carl Goin, the USAID technical advisor, and I reviewed with Mrs. Dimitrova and Mr. Goin the scope of the work and the objectives for the assignment. It was agreed that based on the Bank's current needs, the order of priority of the scope of the work would be established by the Bank and the advisor.

A meeting was held on Wednesday, November 10th, with Mr. Georgy Tomov, First Vice President. I introduced Mr. Spencer and reviewed the scope of the work. Mr. Tomov and Mr. Goin agreed to meet weekly to keep Mr. Tomov advised of the status of the project.

6 INITIAL RESULTS

6.2 Bulgarian Post Bank

The Bank is considering providing end loans for a large development of lower-priced homes to be located near Sofia. The developer is a manufacturer of pre-cast panels and tiles with a production facility in Bourgas. Mr. Spencer has been requested to assist in the development of a mortgage lending program. While he has agreed to provide assistance, he has notified the Bank by memo that the objective of developing the construction lending function cannot be put aside and that the assistance to an end loan program must be limited and conclude by the end of his second week at the bank. This priority was agreeably acknowledged by the Bank.

A copy of the Bank's draft mortgage policy and proposed loan document have been given to Mr. Spencer, in English, and he has worked with the staff to produce supporting forms.

Mr. Spencer has met with the Bank's chief counsel and discussed various legal matters affecting real estate lending, including statutory foreclosure.

6.4 State Savings Bank

Mr. Goin reviewed with Mrs. Dimitrova the two existing construction loans and inspected one project, which has been under construction for one year. The developer will be delivering units to buyers in December. Mr. Goin is suggesting certain modifications and improvements to the cost breakdown document being used by the Bank.

A discussion of the Bank's insurance requirements resulted in a meeting being arranged with the Chairman of the Insurance Institute, the country's major insurance company to discuss the availability of such products as builders' risk coverage, blanket mortgage portfolio coverage, and key man insurance.

Mr. Goin has had several documents translated into Bulgarian at the Bank's request, including:

- Contractor's Direct Payment
- Construction Lending Contract
- Control Card
- Loan Application
- Construction Cost Schedule

The Bank has provided Mr. Goin with adequate office facilities and will provide required administrative support.

8 ADDITIONAL BANKS INDICATING NEEDS FOR TECHNICAL ASSISTANCE

Interest had been expressed by United Bulgarian Bank and Tourist Sparta Bank to have mid-term construction finance advice. However, prior to my arrival in Bulgaria, both banks decided against such assistance for the time being.

United Bulgarian, although apparently still interested in developing a construction lending program, declined because it currently has other priorities and would not be able to commit the senior management resources necessary.

Tourist Sports Bank, due to a change in policy, has decided not to provide construction financing in the immediate future. It should be noted that the leva has experienced a substantive devaluation in the past few weeks, and base interest rates have been raised 500 basis points, which may be contributing to the change of policy at both banks.

10 ADMINISTRATION

To ensure a program which would provide the maximum benefit to the participating banks, an agenda was implemented as follows:

10.2 Translators

While the banks had agreed to provide interpreters/translators, they were unable to retain the high-caliber professionals required for the program. Two highly-qualified translators were therefore engaged to provide oral and written translation services for each advisor for the duration of their respective assignments. Both translators have had previous banking experience and are familiar with banking terminology. Their experience should be helpful to the advisors when confronted with situations and concepts which may differ from American banking practices.

10.4 PADCO Office Facilities

Although the banks have provided working areas for each of the advisors, it is my belief that it is not necessary for the advisors to be at the bank at all times. The PADCO office facilities in Sofia will be used by the advisors to accomplish tasks not requiring bank facilities.

This arrangement will relieve pressure on the bank staff from having to continually interact with the advisor and it will also relieve the necessity of constant translator support, thereby reducing the cost for such support.

The PADCO office provides administrative support in the form of secretarial services and telephone and fax services.

It is expected that the PADCO facilities will be used at the rate of 30-40 percent of the assignment time.

10.6 Independent Monitoring

A procedure has been established whereby Maya Koleva of MTK Konsult will contact the banks on a regular basis and determine the respective bank's perspective of the program. The monitoring will consider the following:

- Meeting the bank's objectives
- Conformance with expectations
- Advisor's performance
- Matters the bank would like to have addressed

10.8 Daily Meetings

During my stay I met on a daily basis with each of the advisors to make sure that the initial implementation objectives were being achieved. While both of the advisors commenced their assignments with so much enthusiasm that, in some cases, they tended to be too accommodating to the bank's requests for assistance in areas beyond the agreed-to scope of the work. In particular, one advisor was inclined to provide the bank with copies of a broad range of documents, which, although of interest to the bank, were either premature or did not provide any substantive benefit in the current environment. I suggested that the advisor more judiciously provide such exhibits and rather than give them in the existing form, use them instead as guidelines to design appropriate items for the bank's use.

The other advisor was confronted by a request from the bank's management to assist in the development of a permanent residential mortgage program to accommodate the bank's desire to provide end loans for a development being constructed by a customer, but for which the bank was not providing construction financing. In this matter, it was decided that although the request was outside the scope of the work, it would be reasonable to provide the assistance, but the length of time devoted to the project would be limited to no more than two weeks of the

advisor's time. As noted previously in this report, the Bank's management was advised by memo, and they gratefully approved of the arrangement.

My comments are not in any way indicating dissatisfaction with the performance of the advisors, but rather to indicate the kinds of events which occurred during the initial implementation and the importance of addressing such problems immediately with tact and sensitivity for the banks who have enthusiastically embraced the technical assistance program.

12 ADDITIONAL EVENTS

I was to have met on November 11th with Mr. Mileti Mladenov, Deputy Governor of the Bulgarian National Bank to introduce the advisors and to discuss current economic conditions in Bulgaria, and their effects on housing, but at the last minute the meeting was cancelled because Mr. Mladenov had to meet with the Prime Minister.

Although I was not able to meet with Mr. Mladenov, he did communicate that he would like to convene a meeting of several chief executives of Bulgarian banks to promote additional interest in the advisory program. He also wants to explore further the possible use of the Bulgarian Indexed Credit Mortgage.

Mr. Spencer found that the Bulgarian Post Bank believes indexed mortgages to be a viable instrument, particularly if structured for an approximate term of three years.

During the time of my visit, the Bank Borrowing Rate increased from 47 percent to 52 percent. If the rate continues to trend upward, borrowing activity will in all probability be curtailed.

14 PROJECT MONITORING

On a weekly basis, Messrs. Spencer and Goin will provide me by fax with reports of activity and significant events.

16 CONCLUSION

I am very impressed with the overall initial performance of both advisors. Both have settled into the assignment showing concern for the needs of their respective banks. In addition, they have indicated they intend to take steps to become familiar with the language and social culture of the county which will help them in communicating in their assignment. Mr. Goin has had business cards made in both the Bulgarian and English languages, and this has made a very favorable impression on his Bulgarian colleagues, as indicated by their comments. I believe the project is well-grounded and will prove to be very successful and beneficial for the Bulgarian bankers.